

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION     )  
DELMARVA POWER & LIGHT COMPANY     )  
FOR APPROVAL OF MODIFICATIONS TO     )     PSC DOCKET NO. 17-1013  
ITS GAS COST RATES     )  
(FILED AUGUST 29, 2017)     )**

**DIRECT TESTIMONY OF  
  
MALIKA DAVIS  
  
ON BEHALF OF COMMISSION STAFF**

**JANUARY 11, 2018**

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Appendix

1 I. Introduction and Purpose of Testimony

2 **Q. Please state your name, business address, and current occupation.**

3 A. My name is Malika Davis. My business address is 861 Silver Lake Boulevard, Suite 100,  
4 Dover, Delaware 19904. I am a Public Utility Analyst III for the Delaware Public Service  
5 Commission ("PSC" or "Commission"). I have been employed as a Public Utility Analyst since  
6 joining the Commission in March 2010.

7  
8 **Q. What are your job responsibilities as a public utility analyst?**

9 A. I am responsible for the certification of Delaware electric suppliers, the monitoring of  
10 Delmarva Power & Light's ("Delmarva" or the "Company") quarterly reports related to  
11 customer service and operational issues, and the monitoring of Delmarva's quarterly rate of  
12 return reports. I also monitor Delmarva's monthly reports for the gas cost rate recovery  
13 schedules and quarterly hedging reports. I am part of the team that works with the Company  
14 regarding issues related to customer education initiatives involving advanced metering  
15 infrastructure and dynamic pricing. I have also served as the case manager in Delmarva's most  
16 recent Environmental Surcharge Rider cases. Additionally, I served as the case manager for  
17 Delmarva's most recent natural gas base rate case. I have also served as a case manager or  
18 member of the rate case team for cases involving Commission regulated water companies.

19  
20 **Q. What is your professional experience and educational background?**

21 A. I have a Bachelor of Science in Marketing and Business Administration and a Master of  
22 Business Administration from Delaware State University. Prior to my employment with the PSC,  
23 I was employed as a Management Analyst I with the Delaware Division of Motor Vehicles

1 (DMV). My duties included monitoring the Commercial Driver Licensing Program for  
2 compliance with State and Federal laws and regulations, training driver license examiners,  
3 issuance staff, and driver improvement staff, interacting with other State and Federal agencies,  
4 representing the DMV at administrative hearings, applying for Federal grants and maintaining  
5 compliance with Federal requirements for grant reporting. Before accepting the position with the  
6 DMV, I was employed as a Labor Market Analyst with the Delaware Department of Labor in the  
7 Office of Occupational Labor Market Information, where I was assigned to work on the  
8 Occupational Employment Statistics program. I was also previously employed at Delaware State  
9 University where I held several positions including Records Office Assistant/Secretary, Acting  
10 Lead Student Services Generalist, Adjunct Instructor, and Career and Academic Advisor for the  
11 College of Business.

12  
13 **Q. What is the purpose of your testimony?**

14 A. I was assigned to review Delmarva's Application for a Change in Its Annual Gas Cost  
15 Rates (the "Application") to ensure that the proposed rates are just and reasonable, and that they  
16 comply with Delmarva's gas service tariff. In my testimony I have included a recommendation  
17 to the Commission with regard to the treatment of this Application.

18  
19 II. Summary of Conclusions

20 **Q. Please summarize your conclusions and recommendations.**

21 A. After reviewing the Application and responses to data requests I have formed the  
22 following conclusions and recommendations:

- The Gas Cost Rates (“GCR”) requested in the Application for November 1, 2017, through October 31, 2018, and approved by the Commission on a provisional basis in Order No. 9122, should be approved as final. These rates will be subject to a true-up in Delmarva’s next GCR proceeding based on actual gas procurement costs and revenue during this period.
- The requested tariff changes should be approved.
- The Company is complying with the settlement agreement in Docket 16-0889.
- The Company should continue with its actions to mitigate increases in fixed costs with regard to pipeline charges, storage services and peaking sources.

### III. Background of the Application

#### **A. Summary and Review of the Application**

##### **Q. Please summarize the Application.**

A. The GCR is the rate that the Company charges its customers to recover its natural gas costs for the twelve month period from November 1<sup>st</sup> through October 31<sup>st</sup> of each year, also known as the Gas Cost Year (“GCY”). The Company’s gas service tariff requires an annual estimated GCR filing to be made by August 31<sup>st</sup> of each year. The gas service tariff also contains a provision for reconciling over- or under-recoveries from a preceding year. The GCR recovers the Company’s total purchased gas costs. Components of the purchased gas costs include commodity purchases, transportation, demand, storage, capacity charges, and hedging costs. Any refunds received from the Company’s suppliers are credited against the GCR.

The Application shows a projected under-recovery balance of \$2,639,208 for the period ending October 31, 2017. The rates effective November 1, 2017, are based on projected sales data and gas costs for the twelve-month period November 1, 2017, through October 31, 2018.

**Q. What changes to the current GCR is the Company proposing?**

A. On August 29, 2017, Delmarva filed an Application to revise the GCR demand charge and commodity charge applicable to Service Classifications Electing Medium Volume Gas Service (“MVG”) and Large Volume Gas Service (“LVG”), to revise the volumetrically applied GCR factors applicable to Service Classifications Residential Gas Sales Service (“RG”), General Gas Sales Service (“GG”), and Gas Lighting Sales Service (“GL”), and non-electing MVG effective on November 1, 2017, with proration. Additionally, the Company sought approval for the proposed Balancing Charge and Pressure Support Fee (“PSF”) for the November 2017 – October 2018 GCR period and approval of changes to the Gas Service Tariff to become effective November 1, 2017.

Below is an illustration of the modifications Delmarva is proposing to its GCR:

Rate Schedules	Current	Proposed	Change from Current
RG, GG, GL, and MVG	44.995¢/ccf	50.304¢/ccf	5.309¢/ccf
LVG and Electing MVG Demand	\$1.7148/Mcf	\$1.9200/Mcf	\$.02052/Mcf
LVG and Electing MVG Commodity	Varies Monthly	Varies Monthly	N/A

**Q. How would the proposed changes to the GCR impact Delmarva’s residential customers?**

1 A. The effect on a residential space heating customer using 83 ccf in a winter month would  
2 be an increase of \$4.40, or 4.9%, in the customer's total bill. I have attached a bill calculation  
3 (Attachment MD-1) showing the percentage of the total bill associated with the GCR change.  
4

5 **Q. Please explain the impact of the proposed GCR changes for all other customers.**

6 A. Customers served on Service Classification GG would experience an increase on their  
7 bills ranging between 1.8% and 6.6%, while customers served on Service Classification MVG  
8 would experience an increase on their bills ranging between 6.0% and 9.0%, depending upon  
9 their load and usage characteristics.  
10

11 **Q. Please explain your review of the Application.**

12 A. I reviewed the Company's Application, including testimonies and exhibits; prior GCR  
13 dockets, orders, and documents regarding follow-up issues; and the 2016-2017 quarterly hedge  
14 reports. I also reviewed the natural gas demand supply plan for this Application and the strategic  
15 gas supply plan for the period 2017/2018 through 2022/2023.

16 In addition to information obtained through discovery, I have participated in meetings  
17 with various Company personnel involved with the GCR. I also performed monthly audits of  
18 Delmarva's GCR sales, revenues, and costs.  
19

20 **Q. Were you assisted in your review of this filing?**

21 A. Yes. Mr. Jerry Mierzwa, Vice-President of Exeter Associates, Inc., was retained by the  
22 Commission to assist Staff and the Division of the Public Advocate ("DPA") in reviewing the  
23 GCR filing, the Company's Supply Plan, and evaluating the Company's procurement activities

1 against established regulatory standards. Mr. Mierzwa's review focused on gas procurement  
2 practices and policies.

3  
4 **B. Assessment of the Application**

5  
6 **Q. What actions did you take in preparing for this filing?**

7 A. Prior to the Company filing this Application, I was involved in auditing the Company's  
8 gas costs. Each month the Company submits regulatory reports to the Commission. I review the  
9 report entitled "Comparison of Gas Expense and Recovery" each month. This report provides  
10 totals for firm sales, total GCR revenue, total gas cost, the Company's monthly over- or under-  
11 recovery, the deferred fuel balance (year-to-date), and the percentage over- or under-recovery.  
12 The Company also supplies reports addressing the development of annual commodity and  
13 demand expenses, summarizing the sales and gas cost rate revenues for the various service  
14 classifications, and summarizing all pipeline purchases, storage injections and withdraws, and  
15 hedge program financial settlements.

16 Each month the Company submits back-up to these reports consisting of:

- 17 • Gas Procurement Reports
- 18 • Firm Gas Purchases
- 19 • Gas Cost Revenues
- 20 • GCR Active Billed Accounts and Accruals
- 21 • MVG Gas Customers Sales and Revenues
- 22 • General Ledger Account Balances
- 23 • Company Use Gas

- Calculations of Weighted Average Cost Of Gas, and Commodity Cost Rates
- Spreadsheets detailing line item charges to firm and non-firm transportation customers.

**C. 2016/2017 Gas Cost Rate Proceeding**

**Q. Please summarize the provisions of the settlement agreement reached in the previous year's GCR, Docket No. 16-0889, and your understanding of the Company's compliance with those provisions.**

A. The Commission entered Order No. 9055 on May 9, 2017, approving the settlement agreement that arose out of last year's GCR. There were eight provisions of the settlement agreement. Below is a brief summary of each provision and the Company's compliance with each issue.

1. GCR Rates:

The parties agreed that Delmarva would implement the rates proposed in the filing. Staff's review of the Company's gas service tariff leaves show that it has complied with this provision.

2. Natural Gas Hedging Program:

The parties agreed that Delmarva would continue to execute its Gas Hedging Program in accordance with the settlement approved in Docket No. 08-266F and further continue to hold quarterly hedge meetings to discuss and review the program. Staff, DPA, and the Company have continued to have quarterly meetings to discuss the hedging reports that the Company submits.

3. Capacity Reserve Margin:

1 In order to determine whether there is sufficient natural gas supply and transmission  
2 capability to permit a non-core or transportation service customer to return to sales service, the  
3 Company was to wait until the Commission issues a final Order on the 2017-18 Application. Mr.  
4 Mierzwa further addresses this provision in his testimony.

5 8. Additional Upstream Pipeline Capacity:

6 Until such time as the Commission issues an Order rendering its findings on the  
7 Company's 2017-18 GCR Application, the Company was not to enter into a Precedent  
8 Agreement for additional upstream long-term pipeline capacity or participate in a binding open  
9 season for such long-term capacity unless Staff and the DPA agreed that the acquisition of  
10 additional capacity is reasonable. Mr. Jacoby states in his testimony that no upstream capacity  
11 changes are planned during the 2017-18 GCR period. Mr. Mierzwa further addresses this  
12 provision in his testimony.

13  
14 **D. Forecasted Gas Sales and Supply Costs**

15  
16 **Q. Please summarize the projected sales forecast for the November 2017 – October**  
17 **2018 GCR.**

18 **A.** The Company used the same methodology it used in Docket No. 16-0889 to forecast its  
19 sales for the current GCR. The forecasts for Residential, Residential Space Heat, and General  
20 Gas customers are projected using a multi-variant econometric model. The larger rate classes'  
21 forecasts are determined on a customer-by-customer basis using sales patterns, production and  
22 maintenance schedule changes, and load additions or deletions. Normal weather is defined as the

30-year average of monthly Heating Degree Days on a 65 degree Fahrenheit base (“HDD”), which is consistent with Commission Order No. 6327 in Docket No. 03-137.

Delmarva projects the firm throughput volume for November 2017 through October 2018 to increase 0.6% from the prior GCY. Firm sales are expected to decrease and firm transportation is expected to increase, as shown below.

	2016-2017 forecast	2017-2018 forecast	Change	% Change
Firm Bundled Sales	12,380,396 Mcf	12,357,758 Mcf	(22,638) Mcf	-0.2%
Firm Transportation	5,872,291 Mcf	6,012,820 Mcf	140,529 Mcf	2.3%
Firm Throughput	18,252,687 Mcf	18,370,578 Mcf	117,891 Mcf	0.6%

**Q. Was there any difference in the data source used to obtain normal weather in this year’s GCR?**

A. No. The HDD history is based on NOAA weather data collected at the “Wilmington” site located at the New Castle County Airport, New Castle, Delaware. This is consistent with Order No. 6327 in Docket No. 03-137, which directed the Company to use NOAA data once it became available to Delmarva’s Gas Delivery division. The Company began using NOAA data in the 10-295F GCR case.

**Q. What percentage loss factor did the Company use in this Application to account for gas that is lost and unaccounted for?**

A. The Company used a 2.4% loss factor. This remains unchanged from what was used in the Company’s previous application. The Company derived the loss factor based on calculations of lost and unaccounted for gas for 24-month and 36-month periods ending June 30, 2017.

**Q. Please discuss how the forecasted spot purchase costs were developed.**

1 A. The Company used the NYMEX gas futures closing prices on August 8, 2017, as its spot  
2 (wholesale) gas price. The Company believes that using a different methodology is not likely to  
3 provide a more accurate GCR forecast. This methodology is in compliance with Delaware PSC  
4 Order No. 6956 from Docket No. 05-312F, which states that:

5 (a) Delmarva will use the NYMEX natural gas futures as the primary  
6 tool in establishing its proposed gas cost rate each year;

7 (b) Delmarva will use the NYMEX gas futures prices based upon a  
8 single day's close or an average of two or more days of closing  
9 prices selected from actual gas futures closing prices observed  
10 between July 20 and August 20 each year;

11 (c) Delmarva will use a consistent gas futures forecasting  
12 methodology from year-to-year unless, in its good faith business  
13 judgment, the Company believes that market indicators suggest  
14 that a different methodology is likely to provide a more accurate  
15 gas cost rate forecast.  
16

17 **Q. Please summarize the projected natural gas commodity costs for the November**  
18 **2017– October 2018 GCR.**

19 A. Storage withdrawals are estimated to make up 24% of the commodity requirements, with  
20 an estimated cost of \$3.25 per Mcf. Hedged purchases are estimated to make up 19% of  
21 commodity requirements, with an estimated cost of \$3.42 per Mcf. Spot purchases are estimated  
22 to make up 58% of commodity requirements with an estimated cost of \$3.14 Mcf. The Company  
23 is currently estimating commodity costs of \$35,486,846 for the current GCR period.

1  
2 **Q. Please summarize the Company's projected fixed costs for the November 2017 -**  
3 **October 2018 GCR.**

4 A. The Company is projecting fixed gas costs totaling \$27,209,899 for the 2017-2018 GCR  
5 period. This estimate includes costs related to pipeline capacity and supply, costs for storage and  
6 seasonal services, and costs for supplemental/peaking sources. The projected fixed costs are  
7 \$3,014,786 or 11.1% higher than in the previous year's GCR projection. According to witness  
8 Jacoby's testimony, a proposed increase in the rates for Eastern Shore Natural Gas ("ESNG")  
9 attributed to the increase in fixed costs.

10 ESNG filed an application for an increase in pipeline rates with the Federal Energy  
11 Regulatory Commission ("FERC") in January 2017. Staff participated in the case along with  
12 Delmarva and the DPA. A settlement was reached in the case which results in slightly lower  
13 rates than those in ESNG's application; therefore the projected increase in fixed costs will be  
14 lower. The settlement was presented to the FERC Settlement Judge on December 13, 2017 and  
15 on January 9, 2018; he recommended that the settlement be approved by the FERC.

16  
17 **Q. Do you have any recommendations regarding the fixed costs?**

18 A. Yes. The Company should continue to take steps to mitigate increases in fixed costs  
19 when managing its pipeline capacity and storage portfolio.

20  
21 **Q. Is the Company proposing a change the Transportation Balancing Charge?**

22 A. Yes. The Company is proposing to increase the Transportation Balancing Charge from  
23 \$0.5897 per Mcf to \$0.6779 per Mcf.

1  
2 **Q. Is the Company proposing a change in the methodology for calculation the 2017-**  
3 **2018 GCR?**

4 A. No.

5  
6 **E. Capacity Release and Off-System Sales**

7  
8 **Q. What is the Company's forecasted off-system sales and capacity release revenues?**

9 A. The Company forecasts that it will achieve \$2,113,925 in gross margins from off-system  
10 sales and capacity release transactions.

11  
12 **Q. Is the Company complying with the margin sharing parameters in accordance with**  
13 **PSC Order No. 7658?**

14 A. It appears that it is. The Application included a schedule detailing actual and estimated  
15 off-system sales and capacity release revenues from November 2017 through October 2018. The  
16 Company provided additional information related to off-system sales and capacity release in  
17 response to data requests.

18  
19 **IV. Gas Cost Rate Recommendations**

20  
21 **Q. Do you agree with the Company's request to modify its GCR factors?**

22 A. Yes, the request appears reasonable. I recommend that the Commission approve the rates  
23 that were previously authorized on a temporary basis, subject to refund, for the 2017-2018 GCR

1 period. The GCR true-up process will provide reconciliation between currently-projected gas  
2 costs and actual gas costs.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes.

# APPENDIX

Calculations based on a residential space heating customer using 83 ccf per winter month						
	Current	Proposed				
*Customer Charge	\$12.65	\$12.65				
*Commodity Charge- 1st 50 ccf	\$26.36	\$26.36				
*Commodity Charge-over 50 ccf	\$13.96	\$13.96				
Total Base Rate	\$52.97	\$52.97				
**ESR	\$0.1403	\$0.1403				
GCR	\$37.35	\$41.75				
<b>TOTAL</b>	<b>\$90.46</b>	<b>\$94.86</b>				
\$ GCR Increase		\$4.41				
% GCR Increase		11.8%				
Overall Bill \$ Increase		\$4.41				
Overall Bill % Increase		4.9%				
* Customer and Commodity Charges based on approved rates in PSC Docket No. 16-0650						
**Environmental Rider Rate Based on PSC Docket No. 16-0888						